

**ISHPEMING CITY SCHOOL DISTRICT
ISHPEMING, MICHIGAN**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2007**

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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ishpeming City School District as of and for the year ended June 30, 2007, which collectively comprise the Ishpeming City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ishpeming City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ishpeming City School District as of June 30, 2007, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2007, on our consideration of the Ishpeming City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 35 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ishpeming City School District's basic financial statements. The combining and individual fund financial statements and schedules listed are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 12, 2007

Ishpeming City School District

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of Ishpeming City School District financial performance provides an overview of the School District's financial activities for the year ended June 30, 2007. Please read it in conjunction with the financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- Net assets for Ishpeming City School District as a whole were reported at \$820,715. Net assets are comprised of 100% governmental activities.
- During the year, Ishpeming City School District expenses were \$10,031,509, while revenues from all sources totaled \$9,211,955, resulting in a decrease in net assets of \$819,554.
- The general fund reported a net decrease of \$390,373. This is \$392,238 lower than the forecasted increase of \$1,865. This was a result of revenues being \$368,529 lower than forecasted and expenses and transfers out being \$21,844 lower than forecasted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Ishpeming City School District financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 12 and 13) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the Ishpeming City School District's operations in more detail than the district-wide statements by providing information about the Ishpeming City School District's most significant funds – the General Fund and the Athletic Facilities Project Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Ishpeming City School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the Ishpeming City School District as a whole begins on page 8. One of the most important questions asked about the Ishpeming City School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Ishpeming City School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Management's Discussion and Analysis (Unaudited) (Continued)

These two statements report the Ishpeming City School District's net assets and changes in them. The Ishpeming City School District's net assets – the difference between assets and liabilities – is one way to measure the Ishpeming City School District's financial health, or financial position. Over time, increases or decreases in the Ishpeming City School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Ishpeming City School District's operating results. However, the Ishpeming City School District's goal is to provide services to our students, not to generate profits as private-sector companies do.

One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the Ishpeming City School District's capital assets, to assess the overall financial health of the Ishpeming City School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the Ishpeming City School District, which encompass all the Ishpeming City School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the Ishpeming City School District's major funds begins on page 10. The fund financial statements begin on page 14 and provide detailed information on the most significant funds – not the Ishpeming City School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the Ishpeming City School District's Board has established other funds to help it control and manage money for particular purposes. The Ishpeming City School District has only governmental funds which use the following accounting methods.

- *Governmental funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The Ishpeming City School District is the trustee, or fiduciary, for its student activity funds and auditorium fund. All of the Ishpeming City School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the Ishpeming City School District's other financial statements because the Ishpeming City School District cannot use these assets to finance its operations. The Ishpeming City School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net assets as of June 30, 2007:

Table 1
Net Assets

	Governmental Activities – 2007	Governmental Activities – 2006
Current and other assets	\$3,775,911	\$4,102,701
Capital assets, net	5,365,293	5,071,835
Total Assets	<u>9,141,204</u>	<u>9,174,536</u>
Current liabilities	3,502,894	2,832,401
Long-term liabilities	4,817,595	4,701,866
Total Liabilities	<u>8,320,489</u>	<u>7,534,267</u>
Net Assets:		
Invested in capital assets, net of related debt	874,259	398,376
Restricted	832,344	1,267,202
Unrestricted	(885,888)	(25,309)
Total Net Assets	<u>\$820,715</u>	<u>\$1,640,269</u>

The School District's net assets were \$820,715 at June 30, 2007. Capital assets, net of related debt totaling \$874,259, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. There is a deficit balance in unrestricted net assets of (\$885,888).

The (\$885,888) deficit in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2007 and 2006.

Table 2
Changes in Net Assets

	Governmental Activities – 2007	Governmental Activities – 2006
Revenues:		
Program revenues:		
Charges for services	\$286,499	\$320,924
Operating grants and contributions	1,698,940	1,565,944
Capital grants and contributions	13,235	-
General revenues:		
Property taxes	1,085,201	1,021,317
State sources not restricted to specific program	5,968,743	5,869,602
Investment earnings	90,792	52,055
Miscellaneous	68,545	92,268
Total Revenues	<u>\$9,211,955</u>	<u>\$8,922,110</u>

Management's Discussion and Analysis (Unaudited) (Continued)

Table 2 (Continued)
Changes in Net Assets

	Governmental Activities – 2007	Governmental Activities – 2006
Program Expenses:		
Instruction	\$5,613,978	\$5,318,326
Supporting services	2,834,129	2,644,365
Community services	56,101	66,859
Payments to other governments	348,645	462,659
School lunch activities	275,406	265,437
Athletic activities	187,457	218,061
Depreciation – unallocated	422,448	461,106
Interest on long-term debt	293,345	164,823
Total Expenses	<u>10,031,509</u>	<u>9,601,636</u>
Increase (decrease) in net assets	(819,554)	(679,526)
Net assets, beginning	<u>1,640,269</u>	<u>2,319,795</u>
Net Assets, Ending	<u>\$820,715</u>	<u>\$1,640,269</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$10,031,509. Certain activities were partially funded from those who benefited from the programs \$286,499 or by other governments and organizations that subsidized certain programs with grants and categoricals \$1,712,175. We paid for the remaining "public benefit" portion of our governmental activities with \$1,085,201 in taxes, \$5,968,743 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets for the year of \$(819,554).

Key reasons for the change in net assets were as follows:

- Net decrease in governmental fund balances of \$953,041.
- Depreciation charged to expense of \$(422,448).
- Purchase of capital assets in the amount of \$703,805.
- Principal payment on debt in the amount of \$194,526.
- Other miscellaneous transactions of \$(342,396).

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$5,613,978	\$4,008,451
Supporting services	2,834,129	2,788,913
Payments to other governments	348,645	347,445
School lunch activities	275,406	13,072
Athletic activities	187,457	103,060

Management's Discussion and Analysis (Unaudited) (Continued)

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$521,158, a decrease of \$953,041 from the beginning of the year.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the School District had \$31,178,549 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See table 4 below)

	Table 4	
	Capital Assets at Year-End	
	Governmental Activities – 2007	Governmental Activities – 2006
Land	\$14,401	\$14,401
Construction in progress	708,466	29,561
Land improvements	378,665	378,665
Buildings	27,140,331	27,122,029
Machinery and equipment	2,276,820	2,361,222
Vehicles	659,866	659,866
	31,178,549	30,565,744
Less accumulated depreciation	(25,873,583)	(25,542,135)
Totals	<u>\$5,304,966</u>	<u>\$5,023,609</u>

This year's additions were \$703,805 included building renovations and construction of the Athletic Facilities Complex. The Sinking Fund levy was used for some these additions.

Management's Discussion and Analysis (Unaudited) (Continued)

Debt

At the end of this year, the School District had \$4,539,870 in bonds and notes outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year End

	Governmental Activities – 2007	Governmental Activities – 2006
General obligation bonds	\$4,385,000	\$4,535,000
Durant Debt	109,163	109,163
Vehicle and copier notes	45,707	90,233
Totals	<u>\$4,539,870</u>	<u>\$4,734,396</u>

There were no major new additions to debt this year.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2008 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2008 fiscal year budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2007. Approximately 75 percent to 80 percent of total General Fund revenues is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget, if actual district resources are not sufficient to fund original appropriations.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Ishpeming City School District Administration, 319 E. Division Street, Ishpeming, Michigan 49849.

Ishpeming City School District
Statement of Net Assets
June 30, 2007

	Governmental Activities
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 2,375,670
Investments	30,336
Receivables:	
Accounts receivable	16,103
Due from other governmental units	1,309,067
Inventories	3,876
Prepaid expenses	40,859
	<hr/>
TOTAL CURRENT ASSETS	3,775,911
	<hr/>
Noncurrent assets:	
Unamortized bond issue costs	60,327
Capital assets	31,178,549
Less accumulated depreciation	(25,873,583)
	<hr/>
TOTAL NONCURRENT ASSETS	5,365,293
	<hr/>
TOTAL ASSETS	9,141,204
	<hr/>
LIABILITIES:	
Current liabilities:	
Accounts payable	152,354
Accrued payroll and other liabilities	475,519
Due to other governmental units	275,432
Deferred revenue	136,078
State aid notes payable	2,245,000
Current portion of bonds payable	200,000
Current portion of notes payable	18,511
	<hr/>
TOTAL CURRENT LIABILITIES	3,502,894
	<hr/>
Noncurrent liabilities:	
Noncurrent portion of employee benefit obligations	532,869
Noncurrent portion of bonds payable	4,294,163
Less deferred loss on refunding bonds	(21,813)
Less unamortized bond discount	(14,820)
Noncurrent portion of notes payable	27,196
	<hr/>
TOTAL NONCURRENT LIABILITIES	4,817,595
	<hr/>
TOTAL LIABILITIES	8,320,489
	<hr/>
NET ASSETS:	
Invested in capital assets net of related debt	874,259
Restricted:	
Debt Service	106,205
Capital Outlay	522,381
Scholarships	203,758
Unrestricted	(885,888)
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TOTAL NET ASSETS	\$ 820,715
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See Notes to Financial Statements.

Ishpeming City School District
Statement of Activities
For the Year Ended June 30, 2007

Function / Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 5,613,978	\$ 88,651	\$ 1,516,876	\$ -
Supporting services	2,834,129	-	31,981	13,235
Community services	56,101	-	-	-
Payments to other governments	348,645	-	1,200	-
Facilities acquisition	-	-	-	-
School lunch activities	275,406	122,430	139,904	-
Athletic activities	187,457	75,418	8,979	-
Interest on retirement of debt	293,345	-	-	-
Depreciation- unallocated	422,448	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	10,031,509	286,499	1,698,940	13,235
				(8,032,835)

General revenues:

Taxes	
Property taxes, levied for general purposes	547,021
Property taxes, levied for debt services	360,364
Property taxes, levied for building and site fund	177,816
State Aid not restricted to specific purposes	5,968,743
Interest and investment earnings	90,792
Miscellaneous	68,545

TOTAL GENERAL REVENUES AND TRANSFERS

7,213,281

CHANGES IN NET ASSETS

(819,554)

Net Assets, July 1

1,640,269

NET ASSETS, JUNE 30

\$ 820,715

See Notes to Financial Statements.

**Ishpeming City School District
Governmental Funds
Balance Sheet
June 30, 2007**

	General Fund	Capital Projects Fund: Athletic Facilities Project Fund	Other Non-major Governmental Funds	Total
ASSETS:				
Cash and cash equivalents	\$ 1,334,208	\$ 477,887	\$ 577,844	\$ 2,389,939
Investments	-	-	16,067	16,067
Receivables:				
Accounts receivable	10,192	-	-	10,192
Due from other governmental units	1,307,350	-	1,717	1,309,067
Due from other funds	234,920	3,572	109,108	347,600
Inventories	-	-	3,876	3,876
Prepaid expenditures	40,859	-	-	40,859
TOTAL ASSETS	<u>\$ 2,927,529</u>	<u>\$ 481,459</u>	<u>\$ 708,612</u>	<u>\$ 4,117,600</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 27,757	\$ 124,597	\$ -	\$ 152,354
Accrued liabilities	445,889	-	-	445,889
Due to other governmental units	275,432	-	-	275,432
Due to other funds	109,030	-	232,659	341,689
Deferred revenue	136,078	-	-	136,078
State aid notes payable	2,245,000	-	-	2,245,000
TOTAL LIABILITIES	<u>3,239,186</u>	<u>124,597</u>	<u>232,659</u>	<u>3,596,442</u>
FUND BALANCES:				
Reserved	121,364	356,862	475,482	953,708
Unreserved, reported in:				
General Fund	(433,021)	-	-	(433,021)
Special Revenue Funds	-	-	471	471
TOTAL FUND BALANCES	<u>(311,657)</u>	<u>356,862</u>	<u>475,953</u>	<u>521,158</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,927,529</u>	<u>\$ 481,459</u>	<u>\$ 708,612</u>	<u>\$ 4,117,600</u>

See Notes to Financial Statements.

**Ishpeming City School District
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2007**

Total Fund Balances for Governmental Funds	\$	521,158
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*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

	Cost of capital assets	31,178,549
	Accumulated depreciation	<u>(25,873,583)</u>
		5,304,966

Unamortized bond issue costs are not financial resources and therefore are not reported in the funds.		60,327
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Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Bonds payable - current portion	200,000	
Bonds payable - long-term portion	4,294,163	
Deferred loss on refunding bonds	(21,813)	
Unamortized bond discount	(14,820)	
Notes payable - current portion	18,511	
Notes payable - long-term portion	27,196	
Accrued interest	29,630	
Employee benefit obligations	<u>532,869</u>	
		(5,065,736)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>820,715</u>
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Ishpeming City School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2007

	General Fund	Capital Projects Fund: Athletic Facilities Project Fund	Other Non-major Governmental Funds	Total
REVENUES:				
Local sources	\$ 746,610	\$ 21,809	\$ 803,578	\$ 1,571,997
State sources	6,853,558	-	-	6,853,558
Federal sources	646,496	-	139,904	786,400
TOTAL REVENUES	8,246,664	21,809	943,482	9,211,955
EXPENDITURES:				
Current:				
Instruction	5,217,214	-	-	5,217,214
Supporting services	2,797,967	-	480,488	3,278,455
Community services	56,101	-	-	56,101
Payments to other governments	364,503	-	-	364,503
Debt Service:				
Principal	22,564	-	150,000	172,564
Interest	74,559	-	183,148	257,707
Facilities acquisition	-	683,289	135,163	818,452
TOTAL EXPENDITURES	8,532,908	683,289	948,799	10,164,996
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(286,244)	(661,480)	(5,317)	(953,041)
OTHER FINANCING SOURCES (USES):				
Transfers in	293,291	1,268,342	104,129	1,665,762
Transfers out	(397,420)	(250,000)	(1,018,342)	(1,665,762)
TOTAL OTHER FINANCING SOURCES (USES)	(104,129)	1,018,342	(914,213)	-
NET CHANGE IN FUND BALANCES	(390,373)	356,862	(919,530)	(953,041)
Fund Balance, July 1	78,716	-	1,395,483	1,474,199
FUND BALANCE, JUNE 30	\$ (311,657)	\$ 356,862	\$ 475,953	\$ 521,158

See Notes to Financial Statements.

Ishpeming City School District
Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds **\$ (953,041)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	422,448	
Capital outlays	<u>(703,805)</u>	281,357

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.

-

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

194,526

Deferred loss on refunding bonds is reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities.

(1,471)

Unamortized bond issue costs are reported as expenditures in the governmental funds when incurred. However, for governmental activities those costs are shown in the statement of net assets and amortized over the life of the bond issuance as other costs in the statement of activities.

12,101

Premium and discounts are recognized in the financial statements as other financing sources or uses but, they are amortized over the term of the bonds in the government-wide financial statements.

(780)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

(29,630)

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(322,616)

Change in Net Assets of Governmental Activities

\$ (819,554)

See Notes to Financial Statements.

**Ishpeming City School District
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2007**

	<u>Agency Funds</u>	<u>Private-Purpose Trust Funds</u>
	<u>Student Activity Fund</u>	<u>Auditorium Fund</u>
ASSETS:		
Cash and equivalents	\$ 53,436	\$ 2,854
TOTAL ASSETS	<u>\$ 53,436</u>	<u>\$ 2,854</u>
 LIABILITIES:		
Accounts payable	\$ -	\$ 5,911
Due to groups, organizations and activities	<u>53,436</u>	<u>-</u>
TOTAL LIABILITIES	<u>\$ 53,436</u>	<u>5,911</u>
 NET ASSETS:		
Held in trust for individuals, organizations, and other governments		<u>(3,057)</u>
TOTAL NET ASSETS		<u>\$ (3,057)</u>

See Notes to Financial Statements.

**Ishpeming City School District
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2007**

	<u>Private-Purpose Trust Fund</u>
	<u>Auditorium Fund</u>
ADDITIONS:	
Contributions:	
Gifts, bequests and endowments	\$ 3,206
Total Contributions	<u>3,206</u>
Investment Income:	
Interest and dividends	<u>14</u>
Net Investment Income (Loss)	<u>14</u>
TOTAL ADDITIONS (DEDUCTIONS)	<u>3,220</u>
DEDUCTIONS:	
Payments in accordance with trust agreements	<u>5,761</u>
TOTAL DEDUCTIONS	<u>5,761</u>
CHANGE IN NET ASSETS	(2,541)
Net assets, beginning of year	<u>(516)</u>
NET ASSETS, END OF YEAR	<u><u>\$ (3,057)</u></u>

See Notes to Financial Statements.

ISHPEMING CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Ishpeming City School District was organized in 1869. The School District operates under a Board-Superintendent form of government. The accounting policies of the Ishpeming City School District conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

Financial Reporting Entity

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units by applying the criteria set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the Ishpeming City School District contain all the funds controlled by the District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The available resources are allocated to and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major fund categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund and the Athletic Facilities Project Fund as its only major governmental funds in accordance with the above criteria. The funds of the School District are described below:

Governmental Fund Types

General Fund – The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Service, Athletics, and Scholarship Funds.

Debt Retirement Funds – Debt Retirement Funds are used to record tax, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds – Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

Fiduciary Fund Types

Trust and Agency Fund – The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Auditorium Fund – The Auditorium Fund is a private-purpose trust fund used to account for assets held by the School District in a trustee capacity for operations of the Auditorium.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (a) below.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a.** All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The District considers cash and cash equivalents to be cash on hand, demand deposits and certificates of deposit.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

Long-Term Liabilities

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences

The School District' policies regarding compensated absences permits employees to accumulate earned but unused sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is approved by the Board of Education.
4. Budgets for all governmental fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts are as approved and amended by the Board of Education.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general-purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Encumbrances

Appropriations in governmental funds are encumbered upon the issuance of purchase orders, contracts or other forms of legal commitments. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities in the year the commitment is made.

Property Taxes

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period in accordance with the National Council on Governmental Accounting Interpretation No. 3, Revenue Recognition - Property Taxes.

Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on August 1 and payable by September 14. The City of Ishpeming bills and collects the property taxes for the School District.

The School District voters authorized the School District to levy the following mileages for the 2006-2007 school year:

On nonresidential property, a total of 18 mills was approved for general operating expenditures on properties with a total taxable value of \$30,171,138.

On all residential and commercial property, 2.0 mills was levied out of a total of 4.486 mills approved for a Building Sinking Fund on properties with a total taxable value of \$88,185,448.

On all residential and commercial property, a total of 3.69 mills was approved for the purpose of retiring long-term obligations on properties with a total taxable value of \$88,185,448.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2007, the District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	\$2,375,670	\$56,290	\$2,431,960
Investments	30,336	-	30,336
	<u>\$2,406,006</u>	<u>\$56,290</u>	<u>\$2,462,296</u>

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a deposit policy for custodial credit risk. As of June 30, 2007, \$2,313,238 of the District's bank balance of \$2,522,595 was exposed to custodial credit risk as being uninsured and uncollateralized.

Investments

As of June 30, 2007, the District had the following investments.

Investment Type	Fair Value	Investment in Maturities (In Years)			
		Less Than 1	1-5	6-10	More Than 10
Michigan Liquid Asset Fund – Mutual Funds	\$11,052	\$11,052	\$ -	\$ -	\$ -
General Motors – Corporate fixed income	19,284	-	-	19,284	-
Totals	\$30,336	\$11,052	\$ -	\$19,284	\$ -

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has no investment policy that would further limit its investment choices. The District's investment in General Motors Corporate Fixed Income was rated BAA2 by Moody's Investors Service and BB by Standard & Poor's. Ratings are not required for the District's investment in Michigan Liquid Asset Fund-Mutual Funds. The District's investments are in accordance with statutory authority.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. More than 5 percent of the District's investments are in the General Motors Corporate Fixed Income. These investments are 64% of the District's total investments.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units consist of various revenues due from federal and state sources for the operation of special programs and grant projects.

NOTE D – FUND MODIFICATIONS (TRANSFER TO/FROM OTHER FUNDS):

The School District reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund receivables and payables are as follows:

Due From Other Funds					
Due To Other Funds		General Fund	Athletic Facilities Project Fund	School Lunch Fund	Total Due To Other Funds
	General Fund	\$-	\$-	\$109,030	\$109,030
	School Lunch Fund	170,327	-	-	170,327
	Athletic Fund	43,291	-	-	43,291
	Building Sinking Fund	15,469	-	-	15,469
	Debt Service Fund	-	3,572	-	3,572
	Agency Fund	5,833	-	78	5,911
	Total Due From Other Funds	\$234,920	\$3,572	\$109,108	\$347,600

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers Out To Other Funds					
Transfers In From Other Funds		General Fund	Athletic Facilities Project Fund	Debt Service Fund	Total Due To Other Funds
	General Fund	\$-	\$250,000	\$-	\$250,000-
	Athletic Facilities Project Fund	250,000	-	1,018,342	1,268,342
	Athletic Fund	147,420	-	-	-
	Total Due From Other Funds	\$397,420	\$250,000	\$1,018,342	\$1,665,762

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance 6/30/06	Additions/ Adjustments	Deductions	Balance 6/30/07
Capital assets not being depreciated:				
Land	\$14,401	\$-	\$-	\$14,401
Construction in progress	29,561	678,905	-	708,466

NOTE E – CAPITAL ASSETS (Continued):

	Balance 6/30/06	Additions/ Adjustments	Deductions	Balance 6/30/07
Capital assets being depreciated:				
Land improvement	\$378,665	\$-	\$-	\$378,665
Buildings and additions	27,122,029	18,302	-	27,140,331
Machinery and equipment	2,361,222	6,598	91,000	2,276,820
Vehicles/buses	659,866	-	-	659,866
Total Capital Assets	30,565,744	703,805	91,000	31,178,549
Less accumulated depreciation:				
Land improvement	95,525	17,333	-	112,858
Buildings and additions	22,598,215	333,403	-	22,931,618
Machinery and equipment	2,285,092	35,733	91,000	2,229,825
Vehicles/buses	563,303	35,979	-	599,282
Total Accumulated Depreciation	25,542,135	422,448	91,000	25,873,583
CAPITAL ASSETS, NET	\$5,023,609	281,357	\$-	\$5,304,966

Depreciation expense charged to governmental activities was \$422,448.

NOTE F – ACCRUED EMPLOYEE BENEFITS:

Upon severing employment with the District, an employee has the option of selecting one of the following as severance pay:

1. Unused sick leave to be paid at \$35.00 per day up to a maximum of \$4,800 per employee.
2. An employee who has been employed for ten years or more shall be paid one week of current salary plus one day of current salary for each year of employment of the District in excess of ten years to a maximum of \$1,500.

As of June 30, 2007, the accrued employee benefits reported in the Statement of Net Assets is \$532,869. This amount includes \$280,000 balance in the Voluntary Special Retirement Program (VSRP) payment offered for teachers who elected into the program by August 1, 2006 and \$42,653 for the teachers who made their election in the 2004-2005 fiscal year. The remainder is attributable to teacher's accrued sick leave.

NOTE G – RESERVED FUND EQUITY:

The School District reserves fund equities for the following funds:

General Fund – The resources of the General Fund have been accumulated for the following specific purposes:

Energy Conservation Funds	\$67,670
1.33 Mill Funds	53,694
	<u>\$121,364</u>

Special Revenue Funds – The resources of the Scholarship Fund have been accumulated for the specific purpose of granting scholarship to graduating students. The fund equities of \$203,758 are reserved for these purposes.

Debt Service Funds – The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities of \$106,205 are reserved for this purpose.

Capital Projects Funds – The resources of the Capital Projects Funds have been accumulated for the specific purpose of acquiring fixed assets. The fund equities of \$522,381 are reserved for these purposes.

NOTE H – LONG-TERM DEBT:

The following is a summary of the long-term debt activity for the year ending June 30, 2007:

	Balance 7/1/06	Additions	Deductions	Balance 6/30/07
1997 Serial Bonds	\$140,000	\$ -	\$140,000	\$-
2005 Refunding Bonds	3,355,000	-	10,000	3,345,000
Durant Bonds	109,163	-	-	109,163
2006 Serial Bonds	1,040,000	-	-	1,040,000
Vehicle Loans Payable	67,406	-	27,545	39,861
IT Loans Payable	22,827	-	16,981	5,846
Employee Benefits Payable	210,253	441,381	118,765	532,869
TOTAL	\$4,944,649	\$441,381	\$313,291	\$5,072,739

Long-term debt at June 30, 2007 consists of the following:

IT LOAN			
June 30, 2007			
School Year	Interest	Principal	Total
2007-2008	\$59	\$5,846	\$5,905
	\$59	\$5,846	\$5,905

IT Loan Payable – The IT Loan Payable (\$33,700), dated October 6, 2005, matures monthly on the 6th of each month with an interest rate of 4.85% per annum.

INSTALLMENT NOTES FOR VEHICLE AND BUS PURCHASES

June 30, 2007

Date	Original Amount	Interest Rate	Monthly Payment	Principal	Interest	Total
08/09/02	\$51,075	4.5%	\$953.74	\$846	\$13	\$859
08/10/05	59,507	3.79%	1,091.17	39,015	2,450	41,465
				<u>\$39,861</u>	<u>\$2,463</u>	<u>\$42,324</u>

Bus note payable originally issued for \$51,075 and dated August 9, 2002 matures monthly as scheduled above on the 9th of every month through August 9, 2007 bearing an interest rate of 4.5% per annum.

Bus note payable originally issued for \$59,507 and dated August 12, 2005 matures monthly as scheduled above on the 20th of every month through August 20, 2010 bearing an interest rate of 3.79% per annum.

2005 Refunding Bonds

June 30, 2007

School Year	May 1			
	November 1 Interest	Interest	Principal	Total
2007-2008	\$67,377	\$67,378	\$160,000	\$294,755
2008-2009	64,977	64,978	170,000	299,955
2009-2010	62,002	62,003	180,000	304,005
2010-2011	58,852	58,853	190,000	307,705
2012-2016	236,960	236,965	1,055,000	1,528,925
2017-2021	116,329	116,333	1,300,000	1,532,662
2022-2026	6,235	6,235	290,000	302,470
Totals	\$612,732	\$612,745	\$3,345,000	\$4,570,477

NOTE H – LONG-TERM DEBT (Continued):

On April 28, 2005, the District issued \$3,365,000 in General Obligation Bonds with an average interest rate of 4.2% to advance refund \$3,340,000 of outstanding 1997 Serial Bonds with an average interest rate of 5.1%. The net proceeds of \$3,307,500 (after payment of \$57,500 in underwriting fees, insurance, and other issuance costs) plus an additional \$197,000 of 1997 series Debt Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 series bonds. As a result, the 1997 series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$25,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 17 years by \$440,107 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$337,265.

School Improvement Bonds (Durant)**Series 1998****June 30, 2007**

School Year	Interest	Principal	Total
2007-2008	\$-	\$-	\$-
2008-2009	2,694	10,289	12,983
2009-2010	2,204	10,778	12,982
2011-2012	1,691	11,292	12,983
2012-2013	22,816	64,412	87,228
2013-2014	590	12,392	12,982
	<u>\$29,995</u>	<u>\$109,163</u>	<u>\$139,158</u>

The School Improvement Bonds, Series 1998 (\$184,877) dated November 24, 1998 mature annually on May 15 with interest at a rate of 4.75% per annum. The only revenue source for making the debt service payment on these School Improvement Bonds is an appropriation from the State of Michigan. If the legislature fails to appropriate the funds, the School District is under no obligation for payment.

**2006 General Obligation
School Building and Site Bonds**
June 30, 2007

School Year	November 1 Interest	May 1		Total
		Interest	Principal	
2007-2008	\$21,554	\$21,554	\$40,000	\$83,108
2008-2009	20,754	20,754	40,000	81,508
2009-2010	19,954	19,954	40,000	79,908
2010-2011	19,154	19,154	40,000	78,308
2011-2012	18,354	18,354	40,000	76,708
2012-2016	78,657	78,657	235,000	392,314
2016-2022	52,275	52,275	300,000	404,550
2022-2027	16,752	16,752	305,000	338,504
Totals	<u>\$247,454</u>	<u>\$247,454</u>	<u>\$1,040,000</u>	<u>\$1,534,908</u>

General Obligation School Building and Site Serial Bonds originally issued for \$1,040,000 and dated June 28, 2006 mature annually on May 1, 2008 through May 1, 2026 and bear interest at a rate of 4.0% to 4.3% per annum. Interest is paid semi-annually on May 1 and November 1 each year.

NOTE H – LONG-TERM DEBT (Continued):

As of June 30, 2007 the aggregate maturities of long-term debt for the next succeeding five years are as follows:

	Principal	Interest	Total
2007-2008	\$218,511	\$179,210	\$397,721
2008-2009	232,564	174,976	407,540
2009-2010	243,526	166,463	409,989
2010-2011	243,465	157,714	401,179
2011-2012	299,412	170,579	469,991
2012-2017	1,347,392	558,505	1,905,897
2017-2022	1,650,000	281,951	1,931,951
2022-2026	305,000	33,504	338,504
	<u>4,539,870</u>	<u>1,722,902</u>	<u>6,262,772</u>
Employer Benefits Payable	532,869	-	532,869
TOTAL	<u>\$5,072,739</u>	<u>\$1,722,902</u>	<u>\$6,795,641</u>

NOTE I – SHORT-TERM DEBT:

The District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of changes in short-term debt for the year ended June 30, 2007, is as follows:

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
State Anticipation Note	<u>\$1,800,000</u>	<u>\$2,245,000</u>	<u>\$1,800,000</u>	<u>\$2,245,000</u>

NOTE J – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in February 2007 and October of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2006 – August 2007.

NOTE K – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the

NOTE K – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, vision and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 16.34% of covered compensation to the Plan through September 30, 2006 and 17.74% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2007 was \$926,732 which consisted of \$802,399 from the District and \$124,333 from employees electing the MIP option. These represent approximately 17% and 3% of covered payroll, respectively. The District's aggregate contributions to the MPSERS plan for the years ended June 30, 2006, and 2005 were \$920,030 and \$798,512, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2007 was approximately \$4,602,000. The District's total payroll was approximately \$4,783,000.

Post Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS at MPSERS, P.O. Box 30673, Lansing, Michigan 48929-8103.

NOTE L – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

NOTE L – CONTINGENT LIABILITIES (Continued):

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M – ECONOMIC DEPENDENCY:

The School District receives approximately 84 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of the Ishpeming City School District.

NOTE N – SINKING FUNDS:

The Building Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For (this) these funds, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE O – FUND BALANCE DEFICIT:

As of June 30, 2007 the General Fund has a fund balance deficit as defined in Section 102(1) of the State School Aid Act. The District is required to notify the Michigan Department of Education, State Aid and School Finance office for proper notification and disposition thereof.

NOTE P – CONSTRUCTION IN PROGRESS:

As of June 30, 2007 construction contracts totaling \$884,330 were entered into for the athletic track and field improvements of which \$678,905 had been completed.

NOTE Q – SINGLE AUDIT:

The District's audited financial statements report a total of \$465,296 in federal expenditures. As the amount is less than the single audit threshold of \$500,000, the District is therefore not required to have an audit in accordance with OMB Circular A-133 for the fiscal year ended June 30, 2007.

REQUIRED FINANCIAL
INFORMATION

**Ishpeming City School District
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local Sources	\$ 1,058,442	\$ 1,127,950	\$ 746,610	\$ 69,508	\$ (381,340)
State sources	7,009,199	6,717,569	6,853,558	(291,630)	135,989
Federal Sources	328,735	769,674	646,496	440,939	(123,178)
TOTAL REVENUES	8,396,376	8,615,193	8,246,664	218,817	(368,529)
EXPENDITURES:					
Instruction:					
Basic programs	3,158,555	3,651,650	3,603,687	(493,095)	47,963
Added needs	1,701,091	1,523,549	1,601,707	177,542	(78,158)
Adult continuing education	-	-	9,659	-	(9,659)
Other instruction	-	-	2,161	-	(2,161)
Total Instruction	4,859,646	5,175,199	5,217,214	(315,553)	(42,015)
Supporting Services:					
Student services	184,328	138,210	139,143	46,118	(933)
Instructional staff	368,598	394,837	114,114	(26,239)	280,723
General administration	263,950	283,925	283,811	(19,975)	114
School administration	520,024	578,109	706,780	(58,085)	(128,671)
Business services	125,095	115,015	139,590	10,080	(24,575)
Operation and maintenance of plant	1,096,300	1,206,935	1,161,093	(110,635)	45,842
Pupil transportation	226,381	252,934	233,252	(26,553)	19,682
Central services	-	-	2,730	-	(2,730)
Other supporting services	-	-	17,454	-	(17,454)
Total Supporting Services	2,784,676	2,969,965	2,797,967	(185,289)	171,998
Community Services:					
Community recreation	-	6,000	5,935	(6,000)	65
Childcare center	-	44,550	45,166	(44,550)	(616)
Other community services	-	6,000	5,000	(6,000)	1,000
Total Community Services	-	56,550	56,101	(56,550)	449
Payments to Other governments:					
Payments to other schools	112,200	112,200	228,400	-	(116,200)
Payments to other governmental entities	-	-	136,103	-	(136,103)
Total Payments to Other Governments	112,200	112,200	364,503	-	(252,303)
Debt Service:					
Principal	190,072	195,738	22,564	(5,666)	173,174
Interest	-	-	74,559	-	(74,559)
Total Payments to Other Governments	190,072	195,738	97,123	(5,666)	98,615
Facilities Acquisition:					
Capital outlay	-	-	-	-	-
Total Facilities Acquisition	-	-	-	-	-
TOTAL EXPENDITURES	7,946,594	8,509,652	8,532,908	(563,058)	(23,256)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	449,782	105,541	(286,244)	(344,241)	(391,785)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	293,291	-	293,291
Transfers (out)	(108,389)	(103,676)	(397,420)	4,713	(293,744)
TOTAL OTHER FINANCING SOURCES (USES)	(108,389)	(103,676)	(104,129)	4,713	(453)
NET CHANGE IN FUND BALANCE	341,393	1,865	(390,373)	(339,528)	(392,238)
Fund Balance, July 1	78,716	78,716	78,716	-	-
FUND BALANCE, JUNE 30	\$ 420,109	\$ 80,581	\$ (311,657)	\$ (339,528)	\$ (392,238)

**Ishpeming City School District
Capital Projects Fund: Athletic Facilities Project Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local Sources	\$ 21,000	\$ 21,000	\$ 21,809	\$ -	\$ 809
State sources	-	-	-	-	-
Federal Sources	-	-	-	-	-
TOTAL REVENUES	<u>21,000</u>	<u>21,000</u>	<u>21,809</u>	<u>-</u>	<u>809</u>
EXPENDITURES:					
Facilities Acquisition:					
Capital outlay	582,486	582,486	683,289	-	(100,803)
Total Facilities Acquisition	<u>582,486</u>	<u>582,486</u>	<u>683,289</u>	<u>-</u>	<u>(100,803)</u>
TOTAL EXPENDITURES	<u>582,486</u>	<u>582,486</u>	<u>683,289</u>	<u>-</u>	<u>(100,803)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(561,486)</u>	<u>(561,486)</u>	<u>(661,480)</u>	<u>-</u>	<u>(99,994)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	1,020,000	1,020,000	1,268,342	-	248,342
Transfers (out)	-	-	(250,000)	-	(250,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,020,000</u>	<u>1,020,000</u>	<u>1,018,342</u>	<u>-</u>	<u>(1,658)</u>
NET CHANGE IN FUND BALANCE	<u>458,514</u>	<u>458,514</u>	<u>356,862</u>	<u>-</u>	<u>(101,652)</u>
Fund Balance, July 1	-	-	-	-	-
FUND BALANCE, JUNE 30	<u>\$ 458,514</u>	<u>\$ 458,514</u>	<u>\$ 356,862</u>	<u>\$ -</u>	<u>\$ (101,652)</u>

SUPPLEMENTAL FINANCIAL
INFORMATION

Ishpeming City School District
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2007

	Special Revenue Funds	Capital Projects Fund: Building Sinking Fund	Debt Service Fund	Total
ASSETS:				
Cash and equivalents	\$ 303,146	\$ 164,921	\$ 109,777	\$ 577,844
Investments	-	16,067	-	16,067
Accounts receivable	-	-	-	-
Due from other funds	109,108	-	-	109,108
Due from other governmental units	1,717	-	-	1,717
Inventory - food and supplies	3,876	-	-	3,876
TOTAL ASSETS	417,847	180,988	109,777	708,612
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	-	-	-	-
Due to other funds	213,618	15,469	3,572	232,659
Other liabilities	-	-	-	-
TOTAL LIABILITIES	213,618	15,469	3,572	232,659
FUND BALANCES:				
Reserved for:				
Debt service	-	-	106,205	106,205
Capital outlay	-	165,519	-	165,519
Scholarship	203,758	-	-	203,758
Unreserved - reported in special revenue funds	471	-	-	471
TOTAL FUND BALANCES	204,229	165,519	106,205	475,953
TOTAL LIABILITIES AND FUND BALANCES	\$ 417,847	\$ 180,988	\$ 109,777	\$ 708,612

Ishpeming City School District
Non-major Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2007

	Special Revenue Funds	Capital Projects Fund: Building Sinking Fund	Debt Service Fund	Total
REVENUES:				
Local sources	\$ 246,393	\$ 182,929	\$ 374,256	\$ 803,578
State sources	-	-	-	-
Federal sources	139,904	-	-	139,904
TOTAL REVENUES	386,297	182,929	374,256	943,482
EXPENDITURES:				
Supporting services	480,488	-	-	480,488
Debt service:				
Principal	-	-	150,000	150,000
Interest and fiscal charges	-	-	183,148	183,148
Facilities acquisition	6,869	128,294	-	135,163
TOTAL EXPENDITURES	487,357	128,294	333,148	948,799
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(101,060)	54,635	41,108	(5,317)
OTHER FINANCING SOURCES:				
Transfers in	104,129	-	-	104,129
Transfers out	-	-	(1,018,342)	(1,018,342)
TOTAL OTHER FINANCING SOURCES (USES)	104,129	-	(1,018,342)	(914,213)
NET CHANGE IN FUND BALANCE	3,069	54,635	(977,234)	(919,530)
Fund Balance, July 1	201,160	110,884	1,083,439	1,395,483
FUND BALANCE, JUNE 30	\$ 204,229	\$ 165,519	\$ 106,205	\$ 475,953

**Ishpeming City School District
Non-major Special Revenue Funds
Combining Balance Sheet
June 30, 2007**

	School Lunch Fund	Athletic Fund	Scholarship Fund	Total
ASSETS:				
Cash and equivalents	\$ 51,097	\$ 48,291	\$ 203,758	\$ 303,146
Investments	-	-	-	-
Due from other funds	109,108	-	-	109,108
Due from other governmental units	1,717	-	-	1,717
Inventory - food and supplies	3,876	-	-	3,876
TOTAL ASSETS	<u>165,798</u>	<u>48,291</u>	<u>203,758</u>	<u>417,847</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Due to other funds	170,327	43,291	-	213,618
TOTAL LIABILITIES	<u>170,327</u>	<u>43,291</u>	<u>-</u>	<u>213,618</u>
FUND BALANCES:				
Fund balance - unreserved	(4,529)	5,000		471
Fund balance - reserved	-	-	203,758	203,758
TOTAL FUND BALANCES	<u>(4,529)</u>	<u>5,000</u>	<u>203,758</u>	<u>204,229</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 165,798</u>	<u>\$ 48,291</u>	<u>\$ 203,758</u>	<u>\$ 417,847</u>

Ishpeming City School District
Non-major Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2007

	School Lunch Fund	Athletic Fund	Scholarship Fund	Total
REVENUES:				
Local sources	\$ 122,701	\$ 84,397	\$ 39,295	\$ 246,393
State sources	-	-	-	-
Federal sources	139,904	-	-	139,904
TOTAL REVENUES	<u>262,605</u>	<u>84,397</u>	<u>39,295</u>	<u>386,297</u>
EXPENDITURES:				
Supporting services	273,731	187,457	19,300	480,488
Facilities acquisition	3,300	3,569	-	6,869
TOTAL EXPENDITURES	<u>277,031</u>	<u>191,026</u>	<u>19,300</u>	<u>487,357</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(14,426)	(106,629)	19,995	(101,060)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	104,129	-	104,129
NET CHANGE IN FUND BALANCE	(14,426)	(2,500)	19,995	3,069
Fund Balance, July 1	9,897	7,500	183,763	201,160
FUND BALANCE, JUNE 30	<u>\$ (4,529)</u>	<u>\$ 5,000</u>	<u>\$ 203,758</u>	<u>\$ 204,229</u>

**Ishpeming City School District
School Lunch Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2007**

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local Sources:			
Sale of lunches	\$ 95,750	\$ 122,430	\$ 26,680
Income from investments	250	271	21
Total Local Sources	96,000	122,701	26,701
State Sources:			
State Aid	15,400	-	(15,400)
Grants received from the State	4,500	-	(4,500)
Total State Sources	19,900	-	(19,900)
Federal Sources:			
Grants restricted:			
Received through the State	115,000	129,723	14,723
U.S.D.A. Entitlement	14,500	9,983	(4,517)
U.S.D.A. Bonus	2,400	198	(2,202)
Total Federal Sources	131,900	139,904	8,004
TOTAL REVENUES	247,800	262,605	14,805
EXPENDITURES:			
Support Services:			
School Lunch Activities:			
Salaries and wages	109,900	108,763	1,137
Employee benefits	28,500	28,120	380
Purchased services	725	723	2
Food costs	92,800	135,273	(42,473)
Supplies, materials, and other expenses	17,500	852	16,648
Total Supporting Services	249,425	273,731	(24,306)
Facilities Acquisition	2,610	3,300	(690)
TOTAL EXPENDITURES	252,035	277,031	(24,996)
EXCESS REVENUES (EXPENDITURES)	(4,235)	(14,426)	(10,191)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	(4,235)	(14,426)	(10,191)
Fund Balance, July 1	9,897	9,897	-
FUND BALANCE, JUNE 30	\$ 5,662	\$ (4,529)	\$ (10,191)

**Ishpeming City School District
Athletic Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Local Sources:			
Gate receipts and tournament activity	\$ 32,855	\$ 54,922	\$ 22,067
Participation fee	20,496	20,496	-
Income from investments	150	-	(150)
Other	24,319	8,979	(15,340)
	<u>77,820</u>	<u>84,397</u>	<u>6,577</u>
Total Local Sources	77,820	84,397	6,577
TOTAL REVENUES	<u>77,820</u>	<u>84,397</u>	<u>6,577</u>
EXPENDITURES:			
Supporting Services:			
Athletic Activities:			
Salaries	119,459	118,579	880
Employee benefits	31,298	31,341	(43)
Purchased services	10,661	10,661	-
Supplies, materials and tournament activity	21,581	26,876	(5,295)
	<u>182,999</u>	<u>187,457</u>	<u>(4,458)</u>
Total Supporting Services	182,999	187,457	(4,458)
Facilities Acquisition:	3,568	3,569	(1)
	<u>186,567</u>	<u>191,026</u>	<u>(4,459)</u>
TOTAL EXPENDITURES	<u>186,567</u>	<u>191,026</u>	<u>(4,459)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(108,747)	(106,629)	2,118
OTHER FINANCING SOURCES (USES):			
Transfers in/(out)	-	104,129	104,129
	<u>-</u>	<u>104,129</u>	<u>104,129</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>104,129</u>	<u>104,129</u>
NET CHANGE IN FUND BALANCE	(108,747)	(2,500)	106,247
Fund Balance, July 1	7,500	7,500	-
	<u>7,500</u>	<u>7,500</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ (101,247)</u>	<u>\$ 5,000</u>	<u>\$ 106,247</u>

**Ishpeming City School District
Scholarship Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Local Sources:			
Contributions from private sources	\$ -	\$ 25,026	\$ 25,026
Income from investments	-	14,269	14,269
Other	-	-	-
Total Local Sources	-	39,295	39,295
TOTAL REVENUES	-	39,295	39,295
EXPENDITURES:			
Supporting Services:			
Agency Activities:			
Scholarships granted	-	19,300	(19,300)
Other	-	-	-
Total Supporting Services	-	19,300	(19,300)
TOTAL EXPENDITURES	-	19,300	(19,300)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	-	19,995	19,995
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	-	19,995	19,995
Fund Balance, July 1	-	183,763	(183,763)
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ 203,758</u>	<u>\$ (163,768)</u>

**Ishpeming City School District
Non-major Capital Projects Fund
Building Sinking Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2007**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Local Sources:			
Property taxes	\$ 172,963	\$ 177,816	\$ 4,853
Income from investments	3,000	5,113	2,113
Miscellaneous	-	-	-
	<u>175,963</u>	<u>182,929</u>	<u>6,966</u>
Total Local Sources			
	<u>175,963</u>	<u>182,929</u>	<u>6,966</u>
TOTAL REVENUES			
	<u>175,963</u>	<u>182,929</u>	<u>6,966</u>
EXPENDITURES:			
Facilities Acquisition:			
Capital outlay	<u>139,145</u>	<u>128,294</u>	<u>10,851</u>
Total Facilities Acquisition			
	<u>139,145</u>	<u>128,294</u>	<u>10,851</u>
TOTAL EXPENDITURES			
	<u>139,145</u>	<u>128,294</u>	<u>10,851</u>
NET CHANGE IN FUND BALANCE	36,818	54,635	17,817
Fund Balance, July 1	<u>110,884</u>	<u>110,884</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 147,702</u></u>	<u><u>\$ 165,519</u></u>	<u><u>\$ 17,817</u></u>

**Ishpeming City School District
Non-major Debt Service Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Local Sources:			
Property taxes	\$ -	\$ 360,364	\$ 360,364
Income from investments	-	13,892	13,892
Total Local Sources	-	374,256	374,256
TOTAL REVENUES	-	374,256	374,256
EXPENDITURES:			
Debt Service:			
Principal payments	-	150,000	(150,000)
Interest and fiscal charges	-	183,148	(183,148)
Total Debt Service	-	333,148	(333,148)
TOTAL EXPENDITURES	-	333,148	(333,148)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	-	41,108	41,108
OTHER FINANCING SOURCES (USES):			
Transfers out	-	(1,018,342)	(1,018,342)
TOTAL OTHER FINANCING SOURCES (USES)	-	(1,018,342)	(1,018,342)
NET CHANGE IN FUND BALANCE	-	(977,234)	(977,234)
Fund Balance, July 1	-	1,083,439	1,083,439
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ 106,205</u>	<u>\$ 106,205</u>

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ishpeming City School District as of and for the year ended June 30, 2007, which collectively comprise the Ishpeming City School District's basic financial statements and have issued our report thereon dated November 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ishpeming City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Ishpeming City School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ishpeming City School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Ishpeming City School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Ishpeming City School District's financial statements that is more than inconsequential will not be prevented or detected by the Ishpeming City School District's internal control. We consider the deficiencies described in a separate letter to management (items 07-01 through 07-04) dated November 12, 2007 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Ishpeming City School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ishpeming City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in a separate letter to management (item 07-05) dated November 12, 2007.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

November 12, 2007



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Ishpeming City School District Report to Management Letter For the Year Ended June 30, 2007

Board of Education
Ishpeming City School District
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ishpeming City School District, Ishpeming, Michigan as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Ishpeming City School District's internal control over financial reporting (internal control) as a basis for designing out auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

07-01 – FINANCIAL REPORTING CYCLE

The monthly and year end financial reporting package as presented to the Board of Education is not fully compliant with the generally accepted accounting principles of reporting. Although the package contains an informative summation of the various Funds revenues and expenditures on both actual and budget basis it lacks the funds respective balance sheets which are necessary to determine the Funds financial position. We recommend the package be expanded to include the balance sheets to conform to current reporting standards. We also suggest any significant monthly and year end cut-off adjusting entries be incorporated into the financial statements in order to present a cleared picture of the various funds of the District. The Board of Education should document this review of the financial affairs in the minutes of the meeting as well as other financial events.

07-02 – INTERNAL CONTROL RECONCILIATION FUNCTION

In any system of internal accounting control one of the main ingredients is a strong reconciliation function. The general ledger contains the accounts and records which are the basis for the preparation of interim financial statements and for them to be free of a material error or irregularity, the necessity for timely reconciliations cannot be overemphasized. The accounts which are most significant in the accounting system that need to be reconciled on a timely basis are:

- Cash accounts
- Accounts receivable
- Accounts payable
- Health insurance payable
- Interfund activity
- Investment activity
- Debt transaction activity
- Federal program revenues

During the course of our audit subsequent to the Districts closing, we made twenty-five (25) adjustments, some of a significant amount to correct the accounting records and also noticed many of the accounts contained unreconciled differences. We have suggested and good internal control dictates the general ledger accounts be reconciled on a monthly basis and any adjustments to be made be processed timely.

07-03 – SEGREGATION OF DUTIES

The accounting staff of the Ishpeming School District #1 is made up of two individuals, which does not allow for segregation of duties. Because of the limited staff, there is an increased chance that misstatements in financial statements would not be prevent or detect on a timely basis. The size of the organization's accounting staff precludes certain internal design controls that would be preferred in the office staffs were large enough to provide optimum segregation of duties.

Smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency. We suggest the Board of Education closely monitor and review the financial statements and transactions on a monthly basis.

07-04 – ASSIST IN PREPARING FINANCIAL STATEMENTS AND FOOTNOTES

Statement on Auditing Standards #112 requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. We assisted management with the external financial reporting responsibility to ensure their financial statements are in accordance with GAAP. The staff of the district does not have adequate time to prepare all the information included in the annual financial statements. Therefore, we assisted in the preparing the financial statements and related footnotes. We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

INSTANCE OF NON-COMPLIANCE

07-05 – FUND BALANCE DEFICIT

At June 30, 2007, the General Fund had a reserved fund balance of \$121,364 and an unreserved fund deficit of \$433,021. Section 102(1) of the State School Aid Act prohibits a district from incurring an operating deficit during a fiscal year. A district is considered to have "a deficit fund balance if (1) its General Fund balance before reserves is negative, or (2) other funds have negative balances that are greater than the General Fund balance before reserves". Although the School District has a General Fund unreserved fund deficit, it does not currently meet the definition of a deficit fund balance. However, care should be taken to monitor the fund more closely in future years to ensure there are sufficient revenues to cover expenses.

* * * * *

This report is intended solely for the information and use of the Ishpeming City School District's board, management, and any other legislative or regulatory body and is not intended to be and should not be used by anyone other than these specified parties.

Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening internal controls. We appreciate the cooperation and courtesy extended to us by the District's staff during our audit and would be pleased to discuss our recommendations with you further at your convenience.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 12, 2007



ANDERSON, TACKMAN & COMPANY, P.L.C.

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November 12, 2007

Board of Education
Ishpeming School District No. 1
Ishpeming, Michigan 49849

We have audited the financial statements of Ishpeming School District No. 1 for the year ended June 30, 2007, and have issued our report thereon dated November 12, 2007. Professional standards require that we provide you with the following information related to our audit

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 25, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Ishpeming City School District No. 1. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Ishpeming City School District No. 1's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Ishpeming City School District No. 1 are described in Footnote A, to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year 2006/2007. We noted no transactions entered into by the Ishpeming City School District No. 1 during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Ishpeming City School District No. 1's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, some of the adjustments we proposed, whether recorded or unrecorded by the Ishpeming City School District No. 1, either individually or in the aggregate, indicate matters that could have a significant effect on the School District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the school district's financial statement or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ishpeming School District No. 1's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

The completion of our audit was delayed because of the staff turnover at or near year end and its affect on the closing process.

This information is intended solely for the use of the Board of Education and management of the Ishpeming School District No. 1 and is not intended to be and should not be used by anyone than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants